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SUBJECT: CREDIT HARD TO OBTAIN IN COTE D'IVOIRE

¶11. Summary. The Ivoirian banking sector is made up of 18 banks, approximately half of which are undercapitalized. Banks here play a relatively small role in the economy, even when compared with banks in other low-income countries. The lack of credit is an element that impedes the expansion of the private sector. However, the entry of new banks into the market will likely result in an increase in banking services and a consolidation of the sector over the next 10 years.  
End summary.

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STRUCTURE OF THE BANKING SECTOR  
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¶12. Generally speaking, the larger Ivoirian banks (including subsidiaries of France's Societe Generale and BNP Paribas) have operated here for decades. Citibank, the sole U.S. bank in the country, has been in Abidjan for over 30 years, providing commercial banking but no retail banking. The large, stable banks typically cater to well established businesses based in Abidjan, and there seems to be moderately strong competition between them in that segment of the economy. Banking services outside Abidjan are limited, especially in the central-north-west region, which has not been under GOCI control since 2002, when rebel forces took over that part of the country.

¶13. In recent years, several African banks--primarily Nigeria-based--have moved into the Ivoirian market. Because of high capital requirements imposed by Nigerian regulators, Nigerian banks are generally better capitalized than Ivorian banks. In Cote d'Ivoire, investors need only about USD 10 million to establish a bank; in Nigeria, approximately USD 200 million is required. The emergence of new banks (approximately five in the past five years) indicates a relatively open banking regime. A representative of one of the Nigerian banks that recently opened in Abidjan told econoff that although he suspected other banks were working behind the scenes to keep his bank out of the country, the process was simple and it took only 18 months to set up the bank.

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LENDING RATES AND PRACTICES  
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¶14. Individuals and businesses, especially small- and medium-sized enterprises (SMES), complain that Ivoirian banks charge high interest rates, require too many documents, and often refuse to make loans. There appears to be some truth to these claims. Economist Intelligence Unit (EIU) figures indicate that the average real lending interest rate in Cote d'Ivoire in 2007 was 7.4 percent, well above the median of 4.7 percent for countries in the EIU database.

¶15. Bankers retort that businesses rarely have proper financial statements and often request loans in unrealistic amounts. Furthermore, bank officials argue that they operate in an environment in which it pays to be conservative: the Ivoirian judiciary system is arbitrary, making recovery of collateral very difficult; and the GOCI demands pre-payments of taxes from bank clients and delays payments to suppliers for long periods. Additionally, some banks must submit loan applications for evaluation by bank counterparts in developed countries, where Cote d'Ivoire is seen as quite risky.

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## HEALTH AND REGULATION OF THE BANKING SECTOR

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**¶6.** The IMF reports that approximately half of Cote d'Ivoire's banks have inadequate capital. The IMF's three-year Poverty Reduction and Growth Facility (PRGF) for Cote d'Ivoire, approved March 27, addresses financial-sector reform. In it, the GOCI agrees to recapitalize and/or restructure private banks in distress and to restructure the state-owned national investment bank (BNI) by restoring its solvency and compliance with prudential norms.

**¶7.** Ivoirian bankers generally respect their regulator, the West African Economic and Monetary Union (WAEMU) Banking Commission, but say that some of the Commission's norms are unrealistic, a fact the Commission tacitly acknowledges by failing to enforce them.

**¶8.** In short, there appear to be three general types of banks in Cote d'Ivoire: large, healthy banks related to European or U.S. banks (four banks); healthy African banks that have recently entered the market (approximately five); and poor, undercapitalized local banks (approximately six, two of which are relatively new).

**¶9.** Although many Ivoirian banks are subsidiaries or otherwise have relationships with foreign banks, bankers in Cote d'Ivoire claim that their banks are "self-contained," i.e., they engage in little inter-bank lending. Their portfolios are typically separate from those of their parent banks--a factor that has limited Ivoirian banks' exposure to the world financial crisis. However, Ivoirian bankers also note that they are beginning to see the impact of the global recession, as the revenues of some of their commodity-exporting clients have fallen.

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## MEASURES OF LENDING ACTIVITY

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**¶10.** Various measures show that the banking sector plays a relatively small role in the Ivoirian economy. World Development Indicators (WDI) show that domestic credit to the private sector equaled 14.3 percent of GDP in 2006. As one might anticipate, Cote d'Ivoire's ratio falls well below that of high-income countries (161.3 percent). However, Cote d'Ivoire's ratio is also significantly lower than the average for low-income countries (24.8 percent).

**¶11.** Similarly, WDI figures for 2006 show that credit provided by the Ivoirian banking sector equaled 18.1 percent of GDP. For high-income countries, the ratio was 193.5 percent; for low-income countries it was 30.0 percent.

**¶12.** The World Bank's Doing Business 2009 report ranks Cote d'Ivoire number 145 of 181 countries (ranking countries from best to worst) in terms of firms' ability to get credit. Among sub-Saharan African countries, Cote d'Ivoire ranks 27th of 45.

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## REASONS FOR LOW LEVELS OF BANKING ACTIVITY

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**¶13.** While the relatively low level of economic development and high poverty rates are likely important factors in the limited level of financial deepening in Cote d'Ivoire, these factors alone do not seem to explain the low level of bank activity in the economy. Additionally, it is difficult to explain this lack of financial deepening as the result of bad monetary policy or bank instability. Since 1980, average annual inflation in Cote d'Ivoire has exceeded 10 percent in only two years. From 1996 through 2007, the average annual inflation rate never exceeded 5 percent. Furthermore, bank accounts have never been frozen, and there have never been large-scale runs on banks here.

¶14. One of the reasons for the low level of bank activity is the lack of data on credit worthiness of potential borrowers.

The 2007 WDI gives Cote d'Ivoire a rating of "one" on a scale of zero to six in terms of credit information availability (with zero representing less information and six representing more information).

¶15. Cultural factors also seem to play a role in the low level of financial deepening. For example, Ivoirians whose employers deposit their salaries directly into bank accounts often withdraw the cash right away--in part to distribute the cash to members of their extended family who rely on them for support. Educational levels also seem to be a factor. West African bankers relate anecdotes about wealthy but uneducated businesspeople who withdraw cash, sometimes huge amounts, from their bank accounts just to make sure it is still "in the bank" or to hand it over to a business partner as part of a deal. Another factor is Cote d'Ivoire's lack of a reliable system for dealing with bad checks, making acceptance of checks a risky--and therefore unusual--practice.

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FUTURE PROSPECTS  
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¶16. Banks that have recently entered the market bring new competition to the financial sector. They will likely find it difficult to break into the market for the large corporate accounts, for which there is already a relatively healthy level of competition. However, given the relatively small role banks currently play in the economy, there seems to be room for some of the newer, perhaps more aggressive banks to gain ground with individuals and SMEs. This is a market that remains underserved.

¶17. The introduction of new products indicates that competition is underway. Banque Atlantique - Cote d'Ivoire has introduced a Visa credit card that clients can pre-load with euros or U.S. dollars to use on trips abroad. BICICI, a subsidiary of BNP Paribas of France, has teamed up with Orange, a French cell-phone service provider, to allow Orange customers to make utility payments, effect money transfers, and carry out other transactions via text messages. Additionally, many employers now give each employee a card to use to withdraw his or her salary from the employer's account at automatic teller machines, even if the employee does not have a bank account.

¶18. As Ivoirians' contact with banks increases and as technology makes banking easier, it seems likely Ivoirians will increase their use of bank services. It also seems likely that there will be a consolidation of banks in the country over the coming years. It is hard to conceive of all 18 banks continuing to operate in a market the size of Cote d'Ivoire's over the medium or long term.

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